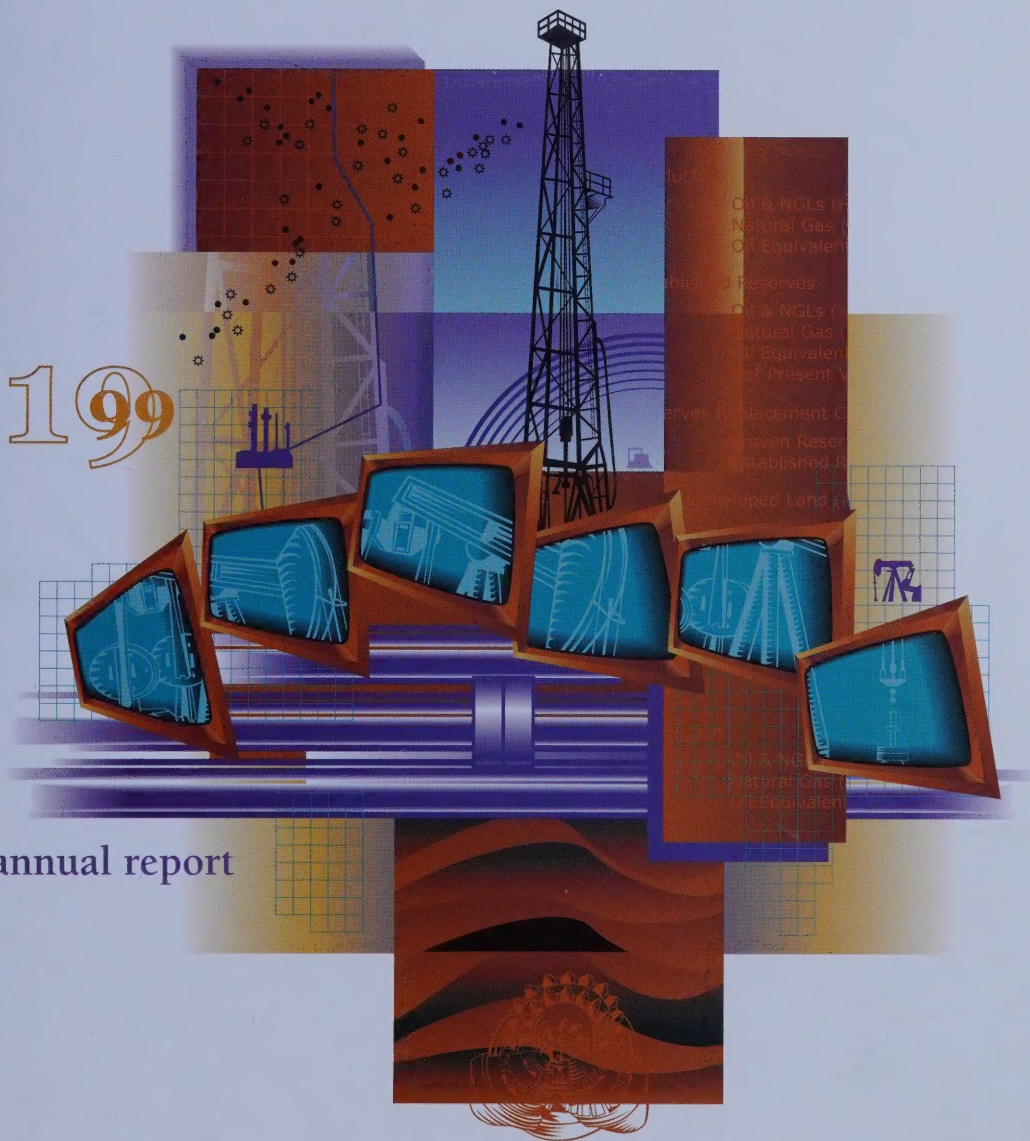


## Caravan Oil &amp; Gas Ltd.

Winspear Business Reference Library  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

1999

annual report



## Table of Contents

Corporate Profile	IFC
Highlights	1
Letter to Shareholders	2
Operations Review	4
Reserves and Production	7
Management's Discussion and Analysis	9
Financial Statements	18
Historical Review	28
Corporate Information	IBC

## Corporate Profile

Caravan Oil & Gas Ltd. is a publicly traded oil and gas exploration, development and production company with operations in Western Canada.

Caravan has assembled a highly motivated group of individuals who are committed to the long term growth of the Company through the internal generation of drilling prospects and the drilling and production operations accompanying these prospects. In addition, Caravan pursues acquisitions to complement the efforts of its technical team and to enhance the Company's value for shareholders. Caravan's team made significant progress in 1999 and, as a result, the Company is poised for continued growth in 2000.

Caravan trades on the Canadian Venture Exchange under the symbol CVO.

## Abbreviations

ARTC	Alberta Royalty Tax Credit
bbls	barrels
bbls/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bopd	barrels of oil per day
mbbls	thousands of barrels
mboe	thousands of barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
WTI	West Texas Intermediate

# 1999 Highlights

	1999	1998	% Change
<b>Operating</b>			
Production			
Oil & NGLs (bopd)	610	270	126%
Natural Gas (mcf/d)	2,900	820	254%
Oil Equivalent (boe/d)	900	352	156%
Established Reserves (Proven & 1/2 Probable)			
Oil & NGLs (mbbls)	1,927	1,349	43%
Natural Gas (mmcf)	14,304	8,756	63%
Oil Equivalent (mboe)	3,358	2,225	51%
Net Present Value (12% bt)	\$ 30,178	\$ 17,875	69%
Reserves Replacement Costs			
Proven Reserves	\$ 7.78	\$ 4.17	87%
Established Reserves	\$ 6.55	\$ 3.68	78%
Net Undeveloped Land (acres)	36,687	11,679	214%
<b>Financial</b>			
Commodity Prices			
West Texas Intermediate (\$US)	\$ 19.24	\$ 14.43	33%
Oil (\$/bbl)	\$ 28.13	\$ 18.18	55%
Natural Gas (\$/mcf)	\$ 2.73	\$ 1.88	45%
BOE	\$ 27.76	\$ 18.35	51%
Oil & Gas Revenue, net of royalties (\$000s)	\$ 7,355	\$ 2,176	238%
Cash Flow			
From Operations (\$000s)	\$ 5,032	\$ 1,121	349%
Basic Per Share	\$ 0.36	\$ 0.11	227%
Fully Diluted	\$ 0.32	\$ 0.11	191%
Average Shares Outstanding (000's)	14,161	9,766	45%
Shares Outstanding Dec 31/99 (000's)	17,010	12,957	31%
Earnings			
Income (\$000's)	\$ 1,827	\$ 342	434%
Basic Per Share	\$ 0.13	\$ 0.03	333%
Fully Diluted	\$ 0.11	\$ 0.03	267%
Capital Expenditures (\$000's)	\$ 9,576	\$ 4,017	
Debt, net of working capital (\$000's)	\$ 2,928	\$ 1,902	

## Letter to Shareholders

Caravan continued to grow its reserves and production in 1999 and this growth, in concert with a dramatic improvement in crude oil prices, enhanced the Company's value on a per share basis. Caravan's Net Asset Value, using a discounted net present value for reserves of 12% before taxes, increased to \$1.64 per share at the end of 1999, as compared to \$1.21 per share a year ago. In addition to increasing the Company's value, Caravan made great strides in enhancing its prospect inventory, which will provide the fundamental base for continued growth.

The Company's growth in 1999 is illustrated by the following achievements:

- Established reserves increased 51% to 3.4 mboe
- Annual average oil & NGLs production increased 126% to 610 bopd
- Annual average gas production increased 254% to 2.9 mmcf/d
- Revenue increased 238% to \$7.4 million
- Operating costs were reduced by 14% to \$4.11 per boe
- Cash flow from operations increased 349% to \$5.0 million
- Earnings increased 446% to \$1.8 million

Caravan's capital program totaled \$9.5 million in 1999, including \$3 million invested in nine separate property acquisitions in the Company's core areas of operations. Caravan's drilling program, combined with the acquisitions, increased Caravan's established reserves by over 1.1 million barrels of oil equivalent to 3.4 million boe as at the end of the year. This increase is net of production which averaged 900 boe/d in 1999, a substantial increase over the 353 boe/d recorded in 1998.

In addition to the exploration, development and property acquisition capital, Caravan acquired PanOil Resources Ltd. during the fourth quarter. PanOil was acquired by way of a share exchange in which the PanOil shareholders received 1 Caravan share and 1/2 of a common share purchase warrant (exercisable at \$1.35 to May 2001) for every seven PanOil shares held. The Company issued 2.4 million shares and 1.2 million warrants to acquire PanOil's assets, consisting of \$2.4 million in working capital (principally cash) and a natural gas prospect in NE British Columbia. Just as importantly, Caravan acquired the PanOil shareholders as a means of improving the trading volumes and ultimate liquidity in Caravan shares.

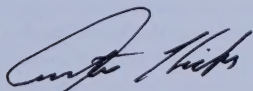
In July of 1999, 1.6 million Caravan warrants issued as part of private placement in 1997 were exercised at a price of \$0.90, resulting in the issuance of 1.6 million common shares in exchange for proceeds of \$1.4 million.

Caravan's 1999 capital program was financed from cash flow of \$5.0 million, the PanOil working capital and proceeds from the warrant exercise. The balance was financed with incremental bank borrowings, bringing Caravan's net debt position to \$2.9 million as at the end of 1999, up from \$1.9 million a year ago. The Company's level of debt is considered low for comparable companies in the oil and gas industry and, as a result, funds through additional bank borrowings are available. The Company's cash flow in 2000, together with incremental bank debt, ensures that Caravan's access to capital is more than sufficient to meet its anticipated needs in 2000. Caravan's use of debt will be prudent and the Company's financial strength will be maintained to provide the ability to pursue opportunities that arise.

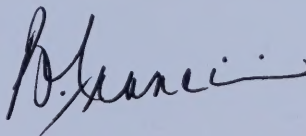
Caravan's long term approach to value added growth is through the development and drilling of internally generated prospects. Over the past two years, Caravan has been assembling a group of industry professionals with the technical strength to carry out this strategy, as demonstrated by the success achieved during this period. The Company enters the new millennium with a quality prospect inventory that provides Caravan and its shareholders with significant, exciting upside potential.

It is with regret that we report that one of Caravan's strong institutional supporters, Stratum Group L.P., has disposed of their shareholdings to pursue other business opportunities more in line with their traditional oil and gas lending practice. As a result, Ms. Betsy Cotton will not be standing for re-election at the upcoming Annual General Meeting. Stratum's support as a large shareholder was significant in Caravan's evolution to a full cycle oil and gas company and has been greatly appreciated. Betsy was a valuable member of the Board and we thank her for her contributions - her wisdom and insight will be missed.

We would like to take this opportunity to thank the staff and directors of Caravan for their efforts and contributions over the past year. The Company's past success and future prospects are due to the dedication of these people, and we look forward to sharing future successes with all those involved in Caravan, including our shareholders.



Curtis W. Hicks  
Chief Executive Officer



Bruce A. Francis  
President and Chief Operating Officer

March 17, 2000

# Operations Review

Over the last three years, Caravan's operations have evolved into four geographic areas of operation. Within each of these core areas, the Company increased production and reserves in 1999 and continues to create exploration and development opportunities in each area. Caravan is well positioned for continued growth and will pursue the development of the opportunities available to it within each of these core areas, as well as take advantage of opportunities in new areas in which the Company has the potential to add substantial value.

## Alida, Saskatchewan

Caravan's position in Alida was initially established in 1998, and has been enhanced over the last few years through a series of strategic property acquisitions combined with a successful drilling program. During 1999, Caravan participated in the drilling of four horizontal oil wells and increased its share of production from the area to 329 boe/d, up from 135 boe/d in 1998. Current production from the area is approximately 350 boe/d. In addition, the Company acquired 3D seismic over its land base late in 1999 to optimize subsequent drilling locations.

Caravan's assets in the area include the infrastructure necessary to process associated natural gas and handle the significant volumes of emulsion that are characteristic of oil production from horizontal wells in southeast Saskatchewan. As a result, operating costs in the area are less than \$1.50 per barrel and new production can be brought on-stream quickly and efficiently.

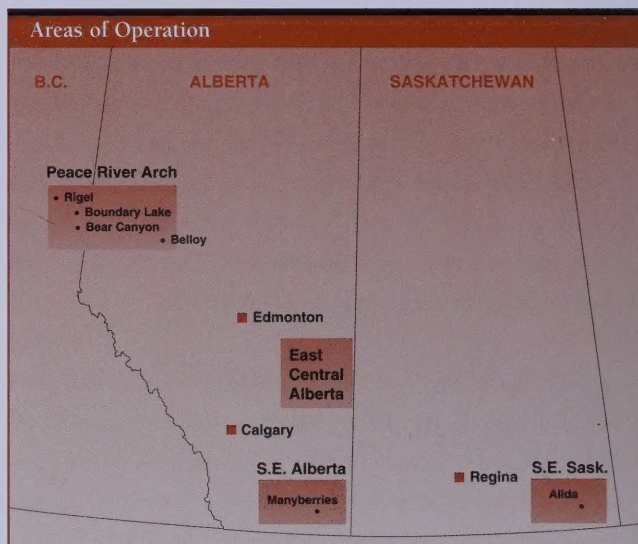
Caravan will participate in the drilling of a number of development locations in 2000, and will continue to pursue additional assets in southeast Saskatchewan to complement its current production from the Alida area.

## Manyberries, Alberta

Manyberries has been a core area for the Company since its inception. Through a combination of drilling, minor property acquisitions and production enhancements, Caravan's share of production from the area increased to 331 boe/d in 1999, up from 196 boe/d in 1998. Positive production response to two of three waterfloods in which the Company is participating has pushed its share of current production to the 600 boe/d range.

Caravan participated in the drilling of two oil wells in the area during 1999 with a third location dry and abandoned. In late 1999, the Company initiated reservoir model studies on the two waterfloods operated by Caravan, the results of which support the drilling of additional development wells to maximize the ultimate recovery of oil from the reservoir. Two wells will be drilled in the first quarter of 2000 with additional locations to be drilled over the balance of the year. The third waterflood in which the Company participates was implemented in 1998 and is in the early stages of positive flood response.

Caravan operates the majority of its production in Manyberries and views the area as one with significant growth potential. The Company will continue to actively exploit these assets over the coming years.



## East Central Alberta

The evolution of the Company's assets in east central Alberta is a prime illustration of the impact of full cycle exploration, development and production.

Approximately three years ago, Caravan started in the area with the purchase of a single section of land from the Crown. The Company's undeveloped land base has grown considerably to the point where it reached some 19,000 net acres as at the end of 1999. In addition to acquired lands, the Company has increased its acreage position through a number of farm-in transactions. In this manner, Caravan has access to a further 26,000 net acres of undeveloped land, bringing its land base to over 45,000 net undeveloped acres. The Company has also assembled a substantial seismic database in this area.

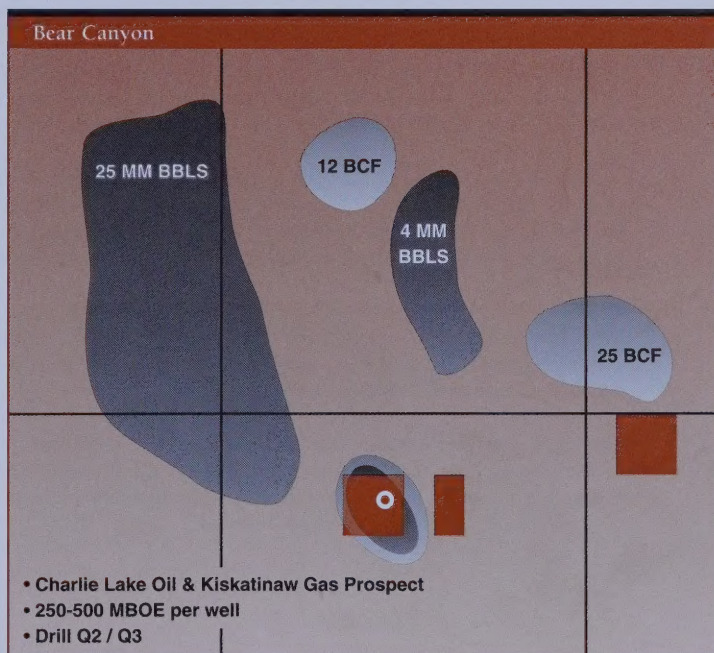
Since commencing operations in east central Alberta, Caravan has participated in the drilling of 18 wells, resulting in 9 gas wells, 1 oil well and 8 dry and abandoned. The Company has a number of locations ready for drilling and anticipates the commencement of a multi-well program during the first quarter of 2000. Additional locations are being evaluated for drilling and the Company continues to acquire highly prospective land at Crown sales. Caravan's production from the east central Alberta area commenced in 1999, averaging 73 boe/d for the year. Current production is approximately 250 boe/d with two gas wells to be tied in and placed on production in March.

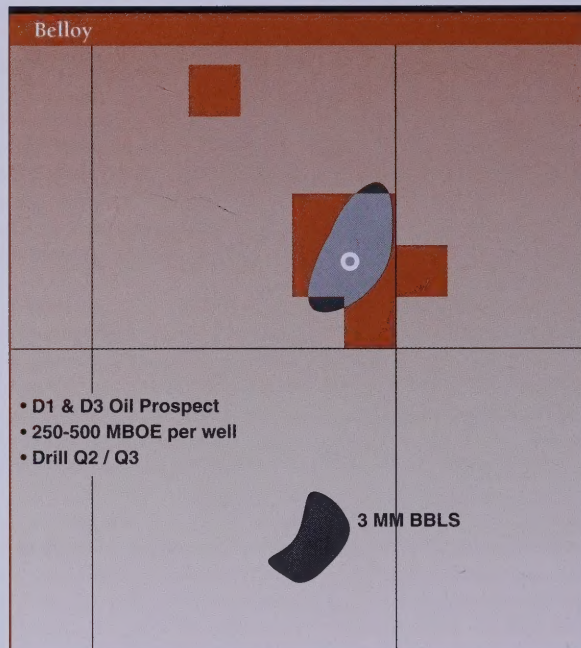
Caravan has established a significant presence in the area and will continue to build on its existing asset base in 2000 and beyond.

## Peace River Arch

In late 1998, Caravan participated as to a 50% working interest in a deep gas test at Boundary Lake in Alberta. The well encountered sweet, liquids rich gas pay in the D3 horizon at approximately 2,600 metres, and was placed on production in the first quarter of 1999 at a rate of 2.5 mmcf/d. The Company's success in the drilling of this well has lead to a number of initiatives in the Peace River Arch area of western Canada.

At Boundary Lake in 1999, Caravan acquired 3D seismic and additional land, subsequently drilling a second D3 location that encountered the reservoir, however the zone was wet and the well was abandoned. The D3 features being drilled in this area are independent features and the Company has identified further anomalies on its land base that will be pursued in 2000. Production from the Boundary Lake area averaged 105 boe/d in 1999 with current production levels at approximately 150 boe/d. The Company believes that the area





holds significant upside with multiple horizon potential, and will continue to pursue opportunities in this area.

At Rigel in B.C., Caravan has developed a Halfway oil prospect that will be drilled in the first quarter of 2000, and success with the first well will lead to additional development locations. Offsetting Crown acreage is also available. Caravan operates the Rigel prospect and it represents the Company's entry into British Columbia.

At Bear Canyon in Alberta, Caravan, with a 50% working interest, is developing a location with dual zone potential targeting Charlie Lake oil and Kiskatinaw gas. Typical wells in the area have reserves up to 500 mboe. As with Rigel, success with the first well will lead to follow up locations with additional Crown acreage available in the area. The well is expected to be drilled in the first half of 2000.

At Belloy in Alberta, Caravan will be participating as to 50% in the drilling of a prospect targeting both the Wabamun and the D3 formations. Typical wells in the area contain reserves of up to 500 mboe from each producing zone. This well is expected to be drilled in the first half of 2000 and success will be followed up with additional locations on existing lands.

Caravan's work in the Peace River Arch has generated a number of exciting prospects with substantial potential. In addition to those prospects that are drill ready, the Company continues to pursue opportunities in the area, as the Arch is viewed as a higher profile core area which complements lower risk operations offered by areas such as Manyberries, Alida and east central Alberta.

# Reserves and Production

Based on an independent engineering report prepared by McDaniel & Associates, the value of Caravan's established reserves increased by over 70% as at the end of 1999 to \$27.4 million using a 15% discount rate. This compares to the \$16.0 million value as at the end of 1998 and a value of only \$6.5 million at the end of 1997. The substantial increase in value has been achieved as a result of a 51% increase in year over year volumes, combined with a more positive commodity pricing environment.

Caravan increased production significantly in 1999, with oil and NGLs averaging 610 bopd, more than double the 270 bopd recorded in 1998. The Company also recorded substantial gains in natural gas sales, averaging 2.9 mmcf/d in 1999 as compared to 0.8 mmcf/d in 1998. Equivalent production volumes averaged 900 boe/d in 1999 for an increase of 156% over the 352 boe/d reported a year ago.

## Reserves Reconciliation

	Proven				Probable				Proven & 50% Probable			
	Oil (mmbbl)	Gas (mmcf)	NGLs (mmbbl)	BOE (mboe)	Oil (mmbbl)	Gas (mmcf)	NGLs (mmbbl)	BOE (mboe)	Oil (mmbbl)	Gas (mmcf)	NGLs (mmbbl)	BOE (mboe)
January 1, 1999	1,070	7,897	37	1,897	482	1,718	1	655	1,311	8,756	38	2,225
Additions & extensions	444	6,141	62	1,120	203	2,046	28	435	545	7,164	76	1,337
Revisions - positive	202	632	-	265	48	60	-	54	226	662	-	292
Revisions - negative	(46)	(1,089)	-	(155)	-	(255)	-	(25)	(46)	(1,216)	-	(167)
Production	(218)	(1,062)	(5)	(329)	-	-	-	-	(218)	(1,062)	(5)	(329)
January 1, 2000	1,452	12,519	94	2,798	733	3,569	29	1,119	1,818	14,304	109	3,358

## Net Present Value

(\$000's)

	Discount Rate:			
	0%	10%	12%	15%
Proven producing	\$ 39,456	\$ 25,411	\$ 23,858	\$ 21,902
Proven non-producing, undeveloped	4,993	3,146	2,917	2,625
Total Proven	\$ 44,449	\$ 28,557	\$ 26,775	\$ 24,527
50% of Probable	9,672	3,856	3,403	2,866
Total Proven & Risked Probable (Established)	\$ 54,121	\$ 32,413	\$ 30,178	\$ 27,393

## Pricing Assumptions

Year	WTI US\$/bbl	Edmonton Light Cdn\$/bbl	Alberta Average Cdn\$/mcf	Exchange Rate \$/US/\$Cdn
2000	\$ 21.00	\$ 29.40	\$ 2.80	\$ 0.69
2001	\$ 20.00	\$ 27.10	\$ 2.70	\$ 0.71
2002	\$ 20.50	\$ 27.40	\$ 2.65	\$ 0.72
2003	\$ 21.00	\$ 28.10	\$ 2.65	\$ 0.72
2004	\$ 21.40	\$ 28.60	\$ 2.65	\$ 0.72
2005	\$ 21.80	\$ 29.20	\$ 2.65	\$ 0.72

Reserves and Net Present Values are reported as evaluated by McDaniels & Associates effective January 1, 2000.

Pricing assumptions represent McDaniels & Associates price forecast as at January 1, 2000.

The net present values include ARTC and are reported before taxes.

## Net Asset Value

(\$000's except per share amounts)

Working Capital (deficit)	\$ (828)		
Reserves - 12% NPV	30,178		
Undeveloped Land	2,201		
Long-Term Debt	(2,100)		
Net Asset Value - Basic	\$ 29,451	NAV per Basic Share	\$ 1.74
Proceeds from Option & Warrants	2,783		
Net Asset Value - Fully Diluted	\$ 32,234	NAV per Fully Diluted Share	\$ 1.64

## Producing Properties

Production	1999		1998	
	Oil & NGLs (bbls/d)	Gas (mcf/d)	BOE (boe/d)	BOE (boe/d)
Manyberries, Ab	280	514	331	196
Alida, Sk	306	225	329	135
Boundary Lake, Ab	10	950	105	-
East Central Alberta	-	725	73	-
Other	14	486	62	21
	610	2,900	900	352
Established Reserves	2000		1999	
as at January 1	Oil & NGLs (mbbls)	Gas (bcf)	BOE (mboe)	BOE (mboe)
Manyberries, Ab	1,059	1.7	1,229	840
Boundary Lake, Ab	82	7.4	822	369
Alida, Sk	706	0.4	746	638
East Central Alberta	38	3.4	378	131
Other	43	1.4	183	247
	1,928	14.3	3,358	2,225

# Management's Discussion and Analysis

The following discussion and analysis compares the financial and operating results of 1999 with those of 1998 and should be read in conjunction with the Company's financial statements for the year ended December 31, 1999. The financial statements can be found starting on page 18 of this Annual Report.

## Operations

1999 represents another year of achieving solid growth in all aspects of Caravan's business :

- Proven reserves increased 47% to 2.8 mboe
- Annual average oil & NGLs production increased 126% to 610 bbls/d
- Annual average gas production increased 254% to 2.9 mmcf/d
- Revenue increased 238% to \$7.4 million
- Operating costs were reduced by 14% to \$4.11 per boe
- Cash flow from operations increased 349% to \$5.0 million (\$0.36 per share)
- Earnings increased 446% to \$1.8 million (\$0.13 per share)

In addition to the achievements recorded in the Company's operations, Caravan completed the acquisition of PanOil Resources Ltd. ("PanOil") during the fourth quarter of 1999. The shareholders of PanOil exchanged their shares for Caravan shares on the basis of 1 Caravan common share and one Caravan common share purchase warrant for every 7 PanOil shares, resulting in the issuance of 2.4 million Caravan shares and 1.2 million Caravan warrants. The warrants are exercisable at a price of \$1.35 until May 2001. The assets acquired in the PanOil transaction included \$2.4 million in working capital (principally cash) and \$200,000 in petroleum and natural gas assets. The working capital acquired strengthens Caravan's balance sheet considerably, ensuring that the Company's access to capital exceeds its anticipated needs in the coming year.

## Capital Expenditures

During 1999, Caravan invested \$9.6 million in exploration, development and acquisition activities, including a substantial investment in land and seismic. The Company's investment in land and seismic is significant, particularly when compared with the minimal investment in these areas in prior years. The Company is committed to the development of a prospect inventory that will provide for the growth of Caravan not only in 2000, but also for a number of years to come. A large, prospective land base with accompanying seismic data is a key starting point from which to build a quality inventory of drillable prospects. Caravan's significant investment in land and seismic will be ongoing and the Company's prior investments in these areas will provide benefits through an expanded drilling program in 2000.

The 1999 capital program was funded from cash flow of \$5.0 million and from \$3.6 million in net equity capital raised during the year, including the funds acquired in the PanOil transaction. The balance of the program was financed through additional bank borrowings.

Future exploration and development programs will be primarily funded by cash flow, with the use of additional long term debt where warranted. Minor property acquisitions will be appropriated from the Company's approved exploration and development budget with larger acquisitions funded principally with additional debt, supplemented with equity where appropriate. Caravan's future cash flow is impacted by commodity price fluctuations and drilling success. The Company has the ability to modify its capital program in response to the economic environment in which it operates to ensure that the long term financial viability of the Company is maintained.

## Capital Expenditures

\$000's

Years ended December 31

	1999	1998	1997
Exploration and Development Costs			
Lease acquisition and retention	\$ 1,041	\$ 12	\$ 1
Seismic	712	169	-
Drilling and completions	3,025	2,339	397
Facilities and equipment	1,807	369	603
Other	116	34	15
Total Exploration and Development Costs	6,701	2,923	1,016
Property Acquisitions	2,955	1,124	2,467
Proceeds From Property Dispositions	(80)	(30)	(150)
Net Capital Expenditures	\$ 9,576	\$ 4,017	\$ 3,373

## Land

Caravan significantly expanded its undeveloped land base in 1999, taking it from approximately 12,000 net acres at the end of 1998 to over 36,000 net acres as at the end of 1999. In addition to the acreage owned, Caravan has entered into a number of farm-in transactions providing the Company with access to an additional 26,000 acres of undeveloped land. Caravan will continue to acquire land in its core areas of operation through Crown land sales and through transactions with other industry players.

## Undeveloped Land

As at December 31 (acres)

	1999		1998	
	Gross	Net	Gross	Net
Alberta	53,791	30,363	16,668	7,115
British Columbia	9,256	2,541	-	-
Saskatchewan	9,815	3,783	11,627	4,564
	72,862	36,687	28,295	11,679

## Drilling

With an increased access to capital combined with the ongoing development of the Company's prospect inventory, Caravan expanded its drilling program in 1999 and participated in the drilling of 25 wells (11.9 net). The Company's success rate was lower than in prior years, however it was influenced by a 4 well (3.3 net) drilling program for shallow gas late in the year that was unsuccessful. Caravan's capital exposure to this 4 well program was less than \$200,000. For 2000, the Company expects to further increase the size of its drilling program in concert with the growth and expansion of the Company.

## Drilling Activity

Years ended December 31

	1999		1998	
	Gross	Net	Gross	Net
Oil	8	2.5	4	1.4
Gas	4	2.5	8	3.0
Dry & Abandoned	13	6.9	3	1.0
	25	11.9	15	5.4
Success Rate	48%	42%	80%	81%

## Reserves

The Company's 1999 capital expenditure program resulted in proven reserve additions totaling 1.2 million boe at a reserves replacement cost of \$7.78 per boe as compared to 1998 reserve addition costs of \$4.17 in 1998. Replacement costs in 1999 are higher due in part to certain one time facilities costs incurred as well as a much larger investment in land and seismic than in prior years. Caravan has included all capital incurred, including land and seismic, in its reserves replacement costs.

Total established (proven plus one half probable) reserves added in 1999 amounted to 1.5 million boe at a cost of \$6.55 per boe. Proven reserve additions replaced 1999 production by a factor of 3.7 times.

The company's three year reserves replacement cost for proven and established reserve additions is \$5.56 and \$5.03 per boe, respectively.

## Reserves Replacement

Years ended December 31

	1999	1998	1997
Reserve Additions (mboe)			
Proven	1,231	963	856
Established	1,462	1,092	818
Reserve Replacement Costs (per boe)			
Proven	\$ 7.78	\$ 4.17	\$ 3.94
Established	\$ 6.55	\$ 3.68	\$ 4.12

## Revenue

Revenue, net of royalties, of \$7.4 million for 1999 is up 238% over the \$2.2 million recorded in 1998 due to the increase in production volumes achieved during the year combined with an improvement in the commodity prices received in 1999 as compared to 1998.

## Revenue

\$000's

Years ended December 31

	1999	1998	1997
Oil revenue	\$ 6,104	\$ 1,782	\$ 774
Natural gas revenue	2,883	564	164
NGLs revenue	90	8	8
Hedging revenue (loss)	(115)	113	(50)
Gross revenue	8,962	2,467	896
Royalties	(1,890)	(303)	(133)
ARTC	283	12	1
Net revenue	\$ 7,355	\$ 2,176	\$ 764

## Oil

The principal increase in oil revenues was the increase in oil production from 270 bbls/d in 1998 to an average of 610 bbls/d in 1999. Revenue was further increased by the improvement in oil prices recorded in 1999. The WTI price of crude averaged US\$19.24 in 1999, 33% higher than the 1998 average of US\$14.43. Current world oil prices remain strong and could result in Caravan's average price for 2000 reaching levels similar to, or higher than, those recorded in 1999.

Over the first nine months of 1999, Caravan hedged 54,000 barrels of oil at an average price of Cdn\$23.89 against an equivalent WTI index price, resulting in hedging losses of \$115,000. During the first quarter of 2000, options on a minimum price of Cdn\$25.00 were acquired for 18,000 barrels of oil. Caravan considers hedging an important part of its risk management strategy and will continue, where prudent, to use various marketing strategies as protection against oil price volatility and to preserve cash flow.

Caravan's royalty rate on its oil production increased substantially in 1999, primarily in response to the increase in oil prices as oil royalty rates are price sensitive, rising in direct response to an increase in pricing. In addition, certain horizontal oilwells exceeded allowable royalty free production volumes in late 1998, resulting in a higher royalty rate on production from these wells. Under the current pricing environment, Caravan's royalty rate for 2000 is expected to be similar to that recorded in 1999.

Operating costs, on a per unit of production basis, were reduced in 1999 as a function of lower cost production additions during the year combined with operating efficiencies achieved. For 2000, the Company expects oil unit operating costs to be consistent with 1999 costs or perhaps even slightly higher as natural production declines are recorded on certain of Caravan's lower cost production.

## Oil Netbacks

per bbl

Years ended December 31

	1999	1998	1997
Sales Price	\$ 28.13	\$ 18.18	\$ 26.50
Hedging revenue (loss)	(0.53)	1.15	(1.77)
Royalties before recovery of ARTC	(6.44)	(2.13)	(3.30)
Operating costs	(3.27)	(5.30)	(13.47)
Netback	\$ 17.89	\$ 11.90	\$ 7.96
Royalty percentage	23%	12%	13%
Daily Production (bbls)	610	270	77

## Natural Gas

Natural gas production increased from 0.8 mmcf/d in 1998 to 2.9 mmcf/d in 1999. The increase in production combined with stronger natural gas pricing markets in 1999 accounted for the substantial increase in natural gas revenues. Continued strength in North American natural gas markets supports an optimistic view for 2000 prices, suggesting that Caravan's prices could mirror those reported in 1999. As part of the Company's risk management strategy, options on a minimum price of \$2.45 were acquired on 2 mmcf/d for a period of twelve months commencing April 1, 2000.

Caravan also manages price risk on its natural gas production by delivering into a combination of fixed and spot price contracts. As of January 1, 2000, the majority of Caravan's natural gas production is delivered into spot price contracts, however as the Company's gas volumes increase, it is anticipated that additional forward sales contracts will be pursued.

Caravan's royalty rate was essentially unchanged in 1999. For 2000, Caravan anticipates that its natural gas royalty rate will resemble that recorded in 1999.

Per unit operating costs for natural gas increased in 1999, reflecting the fact that the increases in natural gas production came from areas where the Company does not have ownership of gas processing facilities. As a non-owner in the facilities, Caravan is charged higher processing tariffs for its production. The Company continues to develop gas reserves in areas where it does not necessarily own facilities and, as a result, expects that operating costs for its gas production will remain at, or slightly above, current levels for 2000.

## Gas Netbacks

per mcf

Years ended December 31

	1999	1998	1997
Sales Price	\$ 2.73	\$ 1.88	\$ 1.85
Royalties, before recovery of ARTC	(0.46)	(0.32)	(0.40)
Operating costs	(0.60)	(0.34)	(0.64)
Netback	\$ 1.67	\$ 1.22	\$ 0.81
Royalty percentage	17%	17%	22%
Daily Production (mmcf/d)	2.9	0.8	0.2

## Oil Equivalent

As a result of the substantial increase in the commodity price environment for 1999, Caravan's boe revenue is 51% higher than in 1998. The higher commodity prices, combined with royalty holiday expiries on certain of Caravan's wells, have generated higher royalty rates. A substantial decrease in oil operating costs was more than sufficient to offset the increased cost of natural gas operations.

### Oil Equivalent Netbacks

per boe

Years ended December 31

	1999	1998	1997
Sales Price	\$ 27.76	\$ 18.35	\$ 27.03
Hedging revenue (loss)	(0.35)	0.09	(1.43)
Royalties, net of ARTC	(4.89)	(2.27)	(3.77)
Operating costs	(4.11)	(4.85)	(13.31)
Netback	\$ 18.41	\$ 11.32	\$ 8.52
Royalty percentage	18%	12%	14%
Daily Production (boe/d)	900	352	96

## Depletion, Amortization and Site Restoration

The depletion, amortization and site restoration charge increased in 1999 as a function of increased production. The annual charge is based on a ratio of production to proven reserves as applied against the net book value of the Company's petroleum and natural gas properties.

On a unit of production basis, Caravan's per unit cost reflects the Company's average annual reserves replacement cost for proven reserve additions. Future depletion charges are expected to increase as production increases, however the per unit rate is expected to fluctuate with Caravan's cost of finding and developing proven reserves.

### Depletion, Amortization and Site Restoration

\$000's except per unit amounts

Years ended December 31

	1999	1998	1997
Depletion, Amortization and Site Restoration	\$ 1,795	\$ 666	\$ 256
Average Cost Per BOE	\$ 5.46	\$ 5.18	\$ 7.70

## General and Administrative

Gross general and administrative ("G&A") costs increased in 1999, reflecting the continued growth of Caravan and the additions to staff and related costs as a result. Caravan has invested in a team that has the ability and capacity to generate and develop the drilling prospects necessary to grow the Company over the next few years. As a result, Caravan's current G&A reflects this commitment to building an inventory of drillable prospects and handling the increased activity levels that are experienced as part of the Company's growth.

As Caravan operates a number of its properties on behalf of its joint interest partners and was active in these areas in 1999, operator's capital and overhead recoveries increased substantially, offsetting the Company's gross G&A.

On a per unit of production basis, gross G&A costs declined slightly while net G&A costs showed a modest increase. G&A costs are expected to continue increasing with the ongoing growth of the Company. However, a base level of staffing has been established and future corporate growth will require only moderate increases in G&A resulting in lower future G&A costs on a per unit basis, reflecting the operational efficiencies inherent in this growth.

### General & Administrative

\$000's except per unit amounts

Years ended December 31

	1999	1998	1997
Gross G&A	\$ 1098	\$ 448	\$ 265
Overhead recoveries			
Capital	(164)	(42)	-
Operating	(182)	(105)	(36)
Other	-	(28)	(9)
Net G&A	\$ 752	\$ 273	\$ 220
Average Cost Per BOE			
Gross	\$ 3.34	\$ 3.49	\$ 7.57
Net	\$ 2.29	\$ 2.12	\$ 6.29

### Interest

Interest expense increased in 1999 due to a substantially higher average level of debt outstanding over the course of the year.

The Company will continue to use a prudent amount of debt as a source of funds for its capital program, with the ultimate objective of maintaining a debt to cash flow ratio of 1 to 1.5 or less. As the Company grows, the absolute level of debt is expected to rise thereby generating higher annual interest charges.

### Interest

\$000's except per unit amounts

Years ended December 31

	1999	1998	1997
Interest on long term debt	\$ 223	\$ 160	\$ 28
Long term outstanding at year end	\$ 2,100	\$ 1,200	\$ 1,505
Net debt outstanding at year end*	\$ 2,928	\$ 1,902	\$ 2,135
Net Debt to Cash Flow ratio	0.6	1.7	N/A

\* Net debt is long term debt net of working capital

## Income Taxes

The Company recorded income taxes in 1999, with the tax provision representing future income taxes with adjustments for the appropriate application of certain restricted income tax deductions. As at December 31, 1999, Caravan had unutilized tax pool balances totaling \$11.1 million.

## Cash Flow From Operations and Earnings

Cash flow from operations increased to \$5.0 million or \$0.32 per fully diluted share in 1999, up from \$1.1 million or \$0.11 per fully diluted share in 1998 (1997 - \$51,000 or \$0.01 per fully diluted share). Fully diluted weighted average shares outstanding totalled 16.6 million in 1999 compared to 10.4 million in 1998 (1997 - 3.4 million).

The Company's net earnings amounted to \$1.8 million or \$0.11 per fully diluted share as compared to \$342,000 or \$0.03 per fully diluted share in 1998 (1997 - a loss of \$205,000 or \$0.06 per share).

## Liquidity and Capital Resources

Oil and natural gas reserves are an inherently declining asset. For a company in this industry to grow, constant capital investment is required in the search for new reserves and for the maintenance of the existing asset base. Caravan's capital program is funded through a combination of cash flow, long term debt and new equity issues.

As at the end of 1999, Caravan had \$2.1 million outstanding on a demand revolving credit facility with a Canadian chartered bank. The facility had a maximum available amount of \$7.0 million as at the end of the year. The facility is secured by a general assignment of book debts and a \$10 million debenture with a floating charge over all the assets of the Company. In addition to its bank debt, the Company had a working capital deficit of \$0.8 million at the end of the year resulting net debt totalling \$2.9 million as compound to \$1.9 million as at the end of 1998. The current liabilities, in excess of current receivables, will be financed primarily through the bank credit facility.

During 1999, the Company had 1.6 million common share purchase warrants exercised at a price of \$0.90, resulting in proceeds to Caravan of \$1.4 million. In addition to issuing common shares as part of the exercise of warrants, the Company issued 2.4 million common shares and 1.2 million common share purchase warrants to acquire all of the issued and outstanding shares of PanOil. PanOil's assets consisted of \$2.4 million in working capital and approximately \$200,000 in petroleum and natural gas assets. The warrants issued to the PanOil shareholders are exercisable to May, 2001 at a price of \$1.35.

## Risks and Uncertainties

Companies involved in the exploration for and production of oil and natural gas face a number of risks and uncertainties inherent in the industry. The Company's performance is influenced by commodity pricing, transportation and marketing constraints, and government regulation and taxation.

Oil prices are influenced by global supply and demand conditions as well as world wide political events. The price Caravan receives for its oil is further adjusted by gravity and other quality factors of the oil and the cost of transporting it to market through pipelines. As the price of oil in Canada is based on a US benchmark price, variations in the Canada/US exchange rate further affect Caravan's oil prices.

Natural gas prices are influenced by the North American supply and demand balance as well as transportation capacity constraints. Seasonal changes in demand, which are largely influenced by weather patterns, also affect the price of natural gas. Caravan utilizes a combination of fixed price contracts as well as spot markets in its natural gas pricing strategy.

The Company's access to oil and natural gas sales markets is restricted, at times, by pipeline capacity. In addition, it is also affected by the proximity of pipelines and availability of processing equipment. Caravan controls as much of its marketing and transportation activities as possible in order to minimize any negative impact of these external factors.

The oil and gas industry is subject to extensive controls, regulatory policies and income taxes imposed by the various levels of government. These controls and policies, as well as income tax laws and regulations, are amended from time to time. The Company has no control over government intervention or taxation levels in the oil and gas industry, however, it operates in a manner to ensure that it is in compliance with all regulations and is able to respond to changes as they occur.

Caravan's operations are subject to the risks normally associated with the oil and gas industry including hazards such as unusual or unexpected geological formations, high reservoir pressures and other conditions involved in drilling and operating wells. The Company minimizes these risks using prudent safety programs and risk management, including insurance coverage against potential losses.

The Company recognizes that the industry is faced with an increasing awareness with respect to the environmental impact of oil and gas operations. Caravan has reviewed the environmental risks to which it is exposed and has determined that there is no current material impact on the Company's operations, however, the cost of complying with environmental regulations is increasing. Caravan will ensure continued compliance with environmental legislation.

Caravan is of the view that inflation will not be a significant factor in its 2000 business environment.

## Sensitivities

The Company's cash flow from operations is sensitive to changes in commodity prices, exchange rates and other factors beyond the control of the Company. Caravan has assessed the magnitude of these sensitivities relative to the Company's 2000 budget and the estimated pre-tax impact on cash flow is summarized in the following table.

### Sensitivities to Cash Flow From Operations

\$000s except per share amounts

	Cash Flow From Operations	Cash Flow Per Share *
Change of US \$1.00 per bbl in the price of WTI oil	\$ 400	\$ 0.02
Change of \$0.10 per mcf in the price of natural gas	\$ 250	\$ 0.01

The Company's exposure to changes in the US\$/Cdn\$ exchange rate and to fluctuations in interest rates is not considered material at this time.

\* per fully diluted share

## Management's Report to the Shareholders

The financial statements of the Company are the responsibility of management and the Board of Directors of the Company. They have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a consistent basis.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the financial records. The financial statements necessarily include certain estimates that are made after consideration of the information available and using careful judgments.

The Board of Directors is responsible for reviewing and approving the financial statements and, through its Audit Committee, ensuring that management fulfills its responsibilities. The Audit Committee meets regularly with management and the external auditors to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the financial statements and recommends their approval to the Board of Directors.

BDO Dunwoody LLP has been appointed by the shareholders of Caravan as the external auditors of the Company. The Auditors' Report to the Shareholders for the year ended December 31, 1999, is presented herein.



Curtis W. Hicks  
Chief Executive Officer

## Auditors' Report

To the Shareholders of Caravan Oil & Gas Ltd.

We have audited the consolidated balance sheets of Caravan Oil & Gas Ltd. as at December 31, 1999 and 1998 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

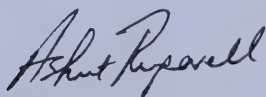
BDO Dunwoody LLP

Chartered Accountants  
Calgary, Alberta  
February 10, 2000

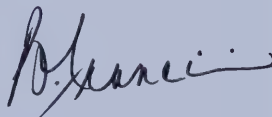
# Consolidated Balance Sheet

As at December 31	1999	1998
<b>Assets</b>		
<b>Current</b>		
Accounts receivable	\$ 2,840,656	\$ 600,615
Petroleum and natural gas properties (Note 2)	15,569,298	7,546,724
	<b>\$ 18,409,954</b>	<b>\$ 8,147,339</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,669,081	\$ 1,302,865
Long term debt (Note 3)	2,100,000	1,200,000
Provision for site restoration	105,822	41,949
Future taxes	1,721,965	339,993
	<b>7,596,868</b>	<b>2,884,807</b>
Share capital (Note 5)	8,878,474	5,155,040
Retained earnings	1,934,612	107,492
	<b>10,813,086</b>	<b>5,262,532</b>
	<b>\$ 18,409,954</b>	<b>\$ 8,147,339</b>

Approved on behalf of the Board:



Director  
Asheet P. Ruparell



Director  
Bruce A. Francis

The accompanying notes are an integral part of these financial statements.

# Consolidated Statement of Operations and Retained Earnings

For the years ended December 31	1999	1998
<b>Revenue</b>		
Oil and gas sales, net of royalties	\$ 7,354,548	\$ 2,175,549
<b>Expenditures</b>		
Operating	1,348,401	616,178
Depletion, amortization and site restoration	1,794,842	665,912
General and administrative, net	750,272	272,774
Interest on long term debt	223,441	159,625
	4,116,956	1,714,489
<b>Income before income taxes</b>	3,237,592	461,060
<b>Income taxes (Note 9)</b>	1,410,472	119,444
<b>Net income</b>	1,827,120	341,616
<b>Retained earnings (deficit), beginning of year</b>	107,492	(234,124)
<b>Retained earnings, end of year</b>	\$ 1,934,612	\$ 107,492
<b>Earnings per share</b>		
Basic	\$ 0.13	\$ 0.03
Fully diluted	\$ 0.11	\$ 0.03

The accompanying notes are an integral part of these financial statements.

# Consolidated Statement of Cash Flows

For the years ended December 31	1999	1998
<b>Cash flows from operating activities</b>		
Net income	\$ 1,827,120	\$ 341,616
Adjustments for:		
Deferred income taxes	1,410,472	113,377
Depletion, amortization and site restoration	1,794,842	665,912
Cash flow from operations	5,032,434	1,120,905
Changes in non-cash working capital	(636,564)	(101,145)
	4,395,870	1,019,760
<b>Cash flows from financing activities</b>		
Changes in non-cash working capital related to petroleum and natural gas properties	710,462	413,497
Increase (decrease) in long term debt	900,000	(425,000)
Issue of share capital, net of share issue costs	1,380,140	3,128,454
Repayment of amounts due to shareholders	-	(120,000)
	2,990,602	2,996,951
<b>Cash flows from investing activities</b>		
Petroleum and natural gas properties	(9,575,632)	(4,016,711)
Acquisition of PanOil - net cash acquired (Note 4)	2,189,160	-
	(7,386,472)	(4,016,711)
<b>Increase in cash</b>	-	-
<b>Cash, beginning of year</b>	-	-
<b>Cash, end of year</b>	\$ -	\$ -
<b>Cash flow from operations per share</b>		
Basic	\$ 0.36	\$ 0.11
Fully diluted	\$ 0.32	\$ 0.11

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements

December 31, 1999 and 1998

## 1. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

### (a) Consolidation

The Consolidated financial statements include the accounts of Caravan Oil and Gas Ltd. (the "Company") and its wholly owned subsidiary PanOil Resources Ltd. As detailed in Note 4, the Company acquired PanOil Resources Ltd. by way of a share exchange during the year. All significant intercompany transactions have been eliminated.

### (b) Petroleum and natural gas properties

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and the costs of drilling, completing and equipping wells for production.

Costs capitalized, excluding costs related to unproved and undeveloped properties, are depleted on the unit-of-production method based on the estimated proved reserves. Petroleum products and reserves are converted to equivalent units for the purposes of this calculation.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion.

Proceeds from a sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale significantly alters the rate of depletion.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs, less accumulated depletion and amortization, from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves as determined by independent engineers, based on sale prices achievable under existing contracts and posted average reference prices in effect at the end of the current year and current costs, and after deducting estimated future production related expenses, general and administrative expenses, future removal and site restoration costs, financing costs and income taxes.

All of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Other administrative assets are recorded at cost and are amortized annually using a rate of 20% on a declining balance basis.

### (c) Future site restoration costs

The Company accrues for future site restoration costs, with the accrual based on management's best estimate of these costs, calculated on the basis of actual production to proved producing reserves.

### d) Financial instruments

The Company carries certain financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. All gains and losses of financial instruments related to commodities are included in oil and gas sales.

### (e) Measurement uncertainty

The amounts recorded for depletion and amortization of petroleum and natural gas properties and the provision for future site restoration costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in estimates in future periods could be significant.

### (f) Future taxes

Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the new recommendations, the liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

## 2. Petroleum and Natural Gas Properties

	Cost	Accumulated Depletion	1999 Net Book Value	1998 Net Book Value
Petroleum and natural gas properties	\$ 18,071,817	\$ 2,606,932	\$ 15,464,885	\$ 7,507,956
Other administrative assets	126,151	21,738	104,413	38,768
	\$ 18,197,968	\$ 2,628,670	\$ 15,569,298	\$ 7,546,724

The Company does not capitalize general and administrative overhead costs. At December 31, 1999 the carrying value of the Company's undeveloped properties approximated \$2,201,000 (1998 - \$700,000).

## 3. Long Term Debt

Long term debt is a revolving reducing demand loan bearing interest at prime plus 7/8% with a maximum available amount of \$7 million. This loan is secured by a general assignment of book debts and \$10,000,000 debenture with a floating charge over all assets of the Company. A stand by fee of 1/8% per annum is charged on the undrawn portion of this facility and is payable monthly. In spite of being a demand loan, the bank does not intend to demand repayment of the outstanding principal balance prior to December 31, 2000.

#### 4. Acquisition

Effective November 5, 1999, the Company acquired 100% of the outstanding common shares of PanOil Resources Ltd. in exchange for 2,449,517 Units of the Company. Each Unit consisted of one common share of the Company and a half warrant with each whole warrant exercisable at \$1.35 for a further share of the Company. The warrants expire on May 5, 2001. The acquisition has been accounted for by the purchase method. The carrying values of the assets and liabilities acquired were as follows:

Cash and short term deposits	\$ 2,476,660
Other current assets	39,244
Current liabilities	(91,722)
Working capital	2,424,182
Petroleum and natural gas properties	864,470
	\$ 3,288,652
Purchase price, value attributable to the 2,449,517 Units issued <sup>(1)</sup>	\$ 2,314,794
Costs associated with the acquisition, excluding costs of listing shares	287,500
	\$ 2,602,294
Negative purchase price discrepancy charged to petroleum and natural gas properties	\$ 686,358

(1) Based on an ascribed value of \$0.945 per Unit. Each unit was valued at the average trading price of \$1.05 adjusted for a 10% block discount.

#### 5. Share Capital

##### (a) Authorized

Unlimited number of voting common shares  
 Unlimited number of Class B voting common shares  
 Unlimited number of preference shares

##### (b) Issued and outstanding

(i) Common	1999		1998	
	Number of Shares	Amount	Number of Shares	Amount
Issued and outstanding, beginning of year	12,956,921	\$ 5,295,477	6,028,415	\$ 894,977
Issued upon exercise of special warrants	1,603,846	1,443,461	3,592,307	2,335,000
Issued for cash pursuant to initial public offering	-	-	1,336,200	1,002,150
Issued on conversion of class B shares	-	-	1,999,999	1,063,350
Issued on acquisition of Panoil Resources Ltd. (Note 4)	2,449,517	2,314,794	-	-
Issued and outstanding, end of year	17,010,284	\$ 9,053,732	12,956,921	\$ 5,295,477
(ii) Class B				
Issued and outstanding beginning of year	-	\$ -	1,999,999	\$ 1,063,350
Converted to common shares	-	-	(1,999,999)	(1,063,350)
Issued and outstanding, end of year	-	\$ -	-	\$ -
Issued and outstanding	17,010,284	\$ 9,053,732	12,956,912	\$ 5,295,477
Less: Share issue costs, net of deferred tax effect of \$141,500 (1998 -113,000)	-	(175,258)	-	(140,437)
Net issued and outstanding, end of year	17,010,284	\$ 8,878,474	12,956,921	\$ 5,155,040

In 1999, the Company issued 2,449,517 shares and 1,224,750 warrants in exchange for all the issued and outstanding shares of PanOil Resources Ltd. as detailed in Note 4. None of the warrants have been exercised during the year.

During 1998, the Company completed a Special Warrant financing at \$0.65 per Special Warrant, raising \$2,335,000. Each Special Warrant entitled the purchaser to acquire, at no additional cost, one common share and one half common share purchase warrant, resulting in the issuance of 3,592,307 common shares and 1,796,154 common share purchase warrants. The common share purchase warrants entitled the holders to acquire common shares on a one for one basis at an exercise price of \$0.90 on or before July 31, 1999. During 1999, 1,603,846 warrants were exercised and 192,308 warrants expired.

The Company completed its initial public offering on November 26, 1998 pursuant to which it issued 1,336,200 common shares for gross proceeds of \$1,002,150 or \$0.75 per share.

The Company adopted a stock option plan for officers, employees, directors and consultants pursuant to the terms of which the Company can option up to 10% of the issued shares. The Company has outstanding 1,555,000 (1998 - 895,000) options to acquire common shares at prices ranging from \$0.55 to \$1.00, of which 660,000 were granted in 1999 (1998 - 895,000). The options expire at varying dates to July 16, 2004. No options were exercised during 1999.

## **6. Earnings and Cash Flow Per Share**

Per share amounts have been calculated on the weighted average number of common shares outstanding. The weighted average shares outstanding for the year ending December 31, 1999 was 14,161,009 (1998 - 9,765,963).

Fully diluted per share amounts reflect the dilutive effect of the exercise of the options and warrants outstanding. The fully diluted average shares outstanding for the year ending December 31, 1999 was 16,335,616 (1998 - 10,411,579)

## **7. Related Party Transactions**

(a) There were no shareholder loans outstanding during 1999. The Company recorded \$10,882 of interest expense on the shareholder loans outstanding during 1998.

(b) In 1998, \$132,570 of management fees, in lieu of salaried compensation was paid to companies controlled by certain directors and members of the Company's management team. At December 31, 1998 all of the members of the Company's management team were salaried employees.

All related party transactions have been measured at the exchange amounts.

## **8. Financial Instruments**

As disclosed in Note 2 (d), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk and industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

### **(a) Interest rate risk management**

The Company's short and long term borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

As at December 31, 1999, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$21,500 (1998 - \$14,500). The related disclosures regarding these debt instruments are included in Note 3 of these financial statements.

(b) Industry risks

The Company's trade accounts receivable are from companies in the oil and gas industry, and as such the Company is exposed to all the risks associated with that industry. The Company manages price risk on its production by entering into forward sales and fixed price contracts.

The Company has entered into a fixed price contract for the period from November 1, 1999 to March 31, 2000 whereby it can sell up to 1,350 GJ of natural gas per day for \$3.70 per GJ from a specified geographic area of production. For the period April 1, 2000 to April 1, 2001 the Company acquired an option to sell 2000 GJ per day at a minimum price of \$2.45 per GJ or the prevailing market price, whichever is greater.

For the period January to March 2000 the Company acquired the option to sell 6,000 barrels per month of crude oil at a minimum price of \$25 per barrel or the prevailing market price, whichever is greater.

## 9. Income Taxes

(a) The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	1999	1998
Income before income taxes	\$ 3,237,592	\$ 461,060
Income tax rate	44%	44%
Expected income tax provision	1,424,500	202,900
Other permanent difference	2,200	-
Resource related adjustments	(16,228)	(31,856)
Recognition of deferred tax assets	-	(51,600)
	\$ 1,410,472	\$ 119,444

(b) The income tax provision consists of:

	1999	1998
Current	\$ 140,000	\$ 98,269
Future	1,382,472	113,377
Utilization of loss carryovers	(112,000)	(92,202)
	\$ 1,410,472	\$ 119,444

(c) At the end of the year, subject to confirmation by income tax authorities, the Company has the following unutilized tax pool balances:

	1999	1998
Cumulative Canadian Oil and Gas Property Expenses	\$ 5,327,000	\$ 2,615,000
Canadian Development Expenses	1,092,000	651,000
Canadian Exploration Expenses	1,276,000	1,554,000
Share Issue Costs	218,000	195,000
Undepreciated Capital Cost	3,155,000	1,139,000
Non-Capital Losses, expiring at varying dates before 2004	1,000	254,000
Total available tax pools	\$ 11,069,000	\$ 6,408,000

These pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

## 10. Commitments

The Company is committed to a lease agreement for office space which requires an annual minimum lease payment of \$59,200 plus common area costs over the next four years.

## 11. Statement of Cash Flows

(a) The Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants for the Statement of Cash Flows. As a result, the comparative amounts presented in the financial statements have been reclassified to conform to the current year's presentation.

(b) The non-cash activities during 1999 included the acquisition of PanOil (Note 4) for 2,449,517 Units with an aggregate ascribed value of \$2,314,794 plus acquisition costs.

(c) The total interest paid in 1999 was \$223,441 (1998 - \$159,625).

## 12. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

## 13. Comparative Figures

The comparative balance sheet presented herein has been restated to conform with the current year's presentation.

## Historical Review

Year ended December 31 (\$ thousands except per share data)	1999	1998	1997
<b>Financial</b>			
Oil & Gas Revenue, net of royalties	7,355	2,176	764
Company Average Price			
Oil (\$/bbl)	28.13	18.18	26.50
Natural Gas (\$/mcf)	2.73	1.88	1.85
Oil Equivalent (\$/boe)	27.76	18.35	27.03
Cash Flow From Operations	5,032	1,121	51
Per Share - basic	0.36	0.11	0.01
Per Share - fully diluted	0.32	0.11	0.01
Net Income (loss)	1,827	108	(234)
Per Share - basic	0.13	0.03	(0.06)
Per Share - fully diluted	0.11	0.03	(0.06)
Capital Expenditures	9,576	4,017	3,373
Long Term Debt, net of working capital	2,928	1,902	2,135
Shareholders' Equity	10,813	5,263	1,686
Common Shares Outstanding (thousands as at December 31)	17,010	12,957	8,028
Weighted Average Common Shares (thousands)			
Basic	14,161	9,766	3,426
Fully diluted	16,336	10,412	3,426
<b>Operating</b>			
Production			
Oil & NGLs (bbls/d)	610	270	77
Natural Gas (mcf/d)	2,900	820	190
Oil Equivalent (boe/d)	900	352	96
Established Reserves			
Oil & NGLs (mbbls)	1,927	1,349	1,013
Natural Gas (mmcf)	14,304	8,756	2,478
Oil Equivalent (mboe)	3,358	2,225	1,261
Present Value (\$ thousands, discounted at 12% before income taxes)	30,178	17,875	9,164
Undeveloped Land (thousands of acres)			
Gross	72,862	28,295	7,283
Net	36,687	11,679	2,268
Drilling (number of wells)			
Gross	25	15	3
Net	11.9	5.4	1.0

# Corporate Information

## Directors

**Dennis G. Flanagan\*\* +**  
Corporate Director  
Calgary, Alberta

**Bruce A. Francis**  
President & Chief Operating Officer  
Calgary, Alberta

**Curtis W. Hicks**  
Chief Executive Officer  
Calgary, Alberta

**Karim H. Manji+**  
Vice-President  
J. Aron Resources Co.  
Calgary, Alberta

**Cameron A. McVeigh\***  
President  
Camcor Capital Inc.  
Calgary, Alberta

**Asheet P. Ruparell\* \*\***  
Chairman of the Board,  
Calgary, Alberta

**Philip W. Toews\* \*\***  
Vice-President  
J. Aron Resources Co.  
Calgary, Alberta

## Management

**Curtis W. Hicks**  
Chief Executive Officer

**Bruce A. Francis**  
President & COO

**Kirk F. Christensen**  
Manager, Exploration

**Terry R. Kraychy**  
Manager, Operations

**Rodger D. Perry**  
Manager, Land

**Cliff A. Vornbrock**  
Manager, Finance & Administration

## Auditors

**BDO Dunwoody LLP**  
1500, 800 - 6th Avenue S. W.  
Calgary, Alberta  
T2P 3G3

## Engineers

**McDaniel & Associates Consultants Ltd.**  
2200, 255 - 5th Avenue S. W.  
Calgary, Alberta  
T2P 3G6

## Lawyers

**Burstall Ward**  
3100, 324 - 8th Avenue S. W.  
Calgary, Alberta  
T2P 2Z2

## Bankers

**National Bank of Canada**  
600, 407 - 8th Avenue S. W.  
Calgary, Alberta  
T2P 1E5

## Registrar and Transfer Agent

**Montreal Trust Company of Canada**  
600, 530 - 8th Avenue S. W.  
Calgary, Alberta  
T2P 3S8

## Trading

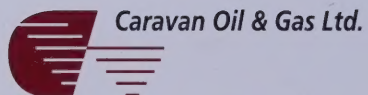
**Canadian Venture Exchange Inc.**  
Trading Symbol = CVO

\* Member of the Audit Committee

\*\* Member of the Compensation Committee

+ Member of the Reserves Committee

The Annual Meeting of the Shareholders of Caravan will be held on Wednesday, May 3, 2000, at 3:00 P.M. in the Viking Room of the Calgary Petroleum Club, 319 - 5th Avenue S. W., Calgary, Alberta. Those shareholders unable to attend are invited to complete and return the proxy form enclosed.



2400, 500 - 4th Avenue S.W.  
Calgary, Alberta  
T2P 2V6

Telephone: (403) 233-9141  
Facsimilie: (403) 269-6089